

# **SETSOTO MUNICIPALITY**



## **TARIFF POLICY**

**Approved by Council :**

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## **1. GENERAL INTRODUCTION AND OBJECTIVE**

A tariff policy must be developed, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy).

In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

## **2. LEGAL REQUIREMENTS**

**SECTION I: WATER SERVICES ACT NO. 108 OF 1997**

**SECTION 9: NORMS AND STANDARDS FOR TARIFFS**

A municipality, in its capacity as a water services institution, must apply a tariff for water services which is not substantially different from any norms and standards which the Minister of Water Affairs and Forestry, with the concurrence of the Minister of Finance, has prescribed in terms of the present Act.

**SECTION 21: BY-LAW**

A municipality, in its capacity as water services authority, must make by-laws which contain conditions for the provision of water services, and which provide for at least the following (inter-alia):

- the standard of the services;
- the technical conditions of supply, including quality standards, units or standards of measurement, the verification of meters, acceptable limits of error and procedures for the arbitration of disputes relating to the measurement of water services provided;
- the determination and structure of tariffs in accordance with Section 10 of the present Act.

If the municipality, in its capacity as water services authority, has imposed conditions under which water services are provided, such conditions must be accessible to consumers and potential consumers.

If the municipality, in its capacity as water services authority, provides water for industrial use, or controls a system through which industrial effluent is disposed of, it must make by-laws providing for at least the following:

- the standards of the service;
- the technical conditions of provision and disposal;
- the determination and structure of tariffs.

## **SECTION II: LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000**

### **SECTION 74: TARIFF POLICY**

The council of a municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.

Such policy must comply with the provisions of the present Act and any other applicable legislation.

Such tariff policy must reflect at least the following principles

- that users of municipal services must be treated equitably in the application of the municipality's tariffs;
- that the amount individual users pay for services must generally be in proportion to the use of such services;
- that poor households must have access to at least basic services through tariffs which cover only operating and maintenance costs, special tariffs or lifeline tariffs for low levels of use or consumption of services or for basic levels of services, or any other direct or indirect method of subsidizing of tariffs for poor households;
- that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- that tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidization from sources other than the service concerned;
- that provision may be made in appropriate circumstances for a surcharge on the tariff for a service;

- that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
- that the extent of subsidization of tariffs for poor households and other categories of users must be fully disclosed.

The tariff policy may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas.

If the policy entails such differentiation, the municipality must ensure that this does not amount to unfair discrimination.

### **SECTION 73: GENERAL DUTY**

The municipality must give effect to the provisions of the Constitution, and in doing so give priority to the basic needs of the local community, promote the development of the local community, and ensure that all members of the local community have access to at least the minimum level of basic municipal services.

The services provided by the municipality must be:

- equitable and accessible;
- provided in a manner conducive to the prudent, economic, efficient and effective use of available resources, and the improvement of standards of quality over time;
- financially sustainable through full cost recovery, affordable and equitable;
- environmentally sustainable; and
- regularly reviewed with a view to upgrading, extension and improvement.

### **SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY**

The council of the municipality must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.

Such by-laws may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, but in a manner which does not amount to unfair discrimination.

### **3. GENERAL PRINCIPLES**

Service tariffs imposed by the local municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigency relief measures approved by the municipality from time to time).

The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

Tariffs for the four major services rendered by the municipality, namely:

- Electricity
- Water
- sewerage (waste water)
- refuse removal (solid waste),

Shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the municipality may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

The municipality shall develop, approve and at least annually review an indigent support program for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.

In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of

users and consumers in regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.

The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question.

The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.

The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

In the case of its directly measurable service, namely water, the consumption of this service shall be properly metered by the municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

In addition, the municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.

In considering the costing of its water, electricity and sewerage services, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services. The municipality therefore undertakes to plan the management and expansion of the services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels which fluctuate significantly over shorter periods are also met. This may mean that the services operate at less than full capacity at various periods, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the municipality believes that it is properly attending to the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.

#### **4. CATEGORIES OF CONSUMERS**

- (1) Separate tariffs structure may be raised for the following categories of customers
  - (a) domestic consumers;
  - (b) commercial consumers;
  - (c) industrial consumers;
  - (d) agricultural consumers;
  - (e) municipalities;
  - (f) consumers with whom special agreements were made;
  - (g) consumers in certain geographical areas;
  - (h) sport and recreation facilities
  - (i) educational and communal institutions; and
  - (j) charitable and welfare institutions and organizations.
- (2) Where there is a substantial difference between the infrastructure use to provide a service to a specific group of users within a category and/or standard of services provided, the Council can, after the considering a report by the Municipal Manager or the relevant Head of Department, determine differentiated tariffs for the different consumer within the specific category.
- (3) The differentiation must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards, where applicable.

#### **5. CALCULATION OF TARIFFS FOR MAJOR SERVICES**

In order to determine the tariffs which must be charged for the supply of the three major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:

- Employee Related Costs
- Cost of bulk purchases
- Distribution costs
- Distribution losses
- Debt Impairment
- Depreciation expenses
- Maintenance of infrastructure and other fixed assets
- Administration and service costs, including:

- service charges levied by other departments such as finance, human resources and legal services;
- reasonable general overheads, such as the costs associated with the office of the municipal manager;
- adequate contributions to the provisions for bad debts and obsolescence of stock;
- all other ordinary operating expenses associated with the service concerned including the cost of providing street lighting in the municipal area (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the municipality).
- The intended surplus to be generated for the financial year, such surplus to be applied:
  - as an appropriation to capital reserves; and/or
  - generally in relief of rates and general services.
- The cost of approved indigent relief measures.

*The municipality shall pay ESKOM to provide the first 50kWh of electricity per month free of charge and will provide the first 6 kl of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigent relief program. The municipality shall further consider relief in respect of the tariffs for sewerage and refuse removal for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget.*

## 6. WATER

The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year.

Categories of consumption and charges shall be:

- All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kl of water consumed per month. Thereafter a stepped tariff per kl as determined by the council from time to time shall be applicable on metered water consumption, as set out in Part 4 of this policy.

- All other domestic consumers shall be charged for actual water consumption at a stepped tariff per kl as determined by the council from time to time, and as set out in Part 4 of this policy.
- All other consumers, including businesses, industries and institutional consumers, shall pay the same single tariff per kl, calculated on the average tariff for households, irrespective of the volume of water consumed.
- A **basic charge** per water meter, as determined by the council from time to time, shall be charged on all water consumers.
- All domestic water consumers to whose premises **water meters have not yet been installed** shall be charged the aforementioned basic charge.
- The local municipality's departmental water consumption shall be charged as per approved budget.

## 7. ELECTRICITY

The categories of electricity consumers as set out below shall be charged at the applicable tariffs, as determined by NERSA and approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year.

Categories of consumption and charges shall be:

- All domestic electricity consumers registered with the municipality shall receive electricity and be charged usage per month. An Inclining Block Tariff per Kwh as determined by NERSA and approved by council from time to time shall be applicable on metered electricity consumption, as set out in Part 4 of this policy.
- All other domestic consumers shall be charged for actual electricity consumption at a Basic Charge tariff and a fix tariff per kwh as determined by NERSA and approved by Council.
- All other consumers, including businesses, industries and institutional consumers, shall pay the same tariff per kwh, calculated according to the Inclining Block Tariff as determined by NERSA and approved by Council.
- All other consumers, including businesses, industries and institutional consumers, shall be charged the same tariff per kwh, if not charged according to the IBT model, a Basic Charge plus a fixed tariff per unit as determined by NERSA and approved by Council.
- A **basic charge** per electricity meter, as determined by the council from time to time, shall be charged on all electricity consumers not addressed in the previous addressed principles.

- The local municipality's departmental electricity consumption shall be charged at a basic cost per unit used as per tariff schedule.

## **8. REFUSE REMOVAL**

The categories of refuse removal users as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year.

A separate fixed monthly refuse removal charge shall apply to each of the following categories of users, based on the costs of the service concerned:

- Domestic and other users (once weekly removal)
- Domestic and other users (twice weekly removal)
- Business and other users (twice weekly removal)
- Business and other users (Removed as determined by Technical department)
- Business and other (bulk consumers).

Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget.

All domestic refuse consumers, whose premises are not yet supplied with a refuse removal service and are therefore required to take their refuse to a central point or transit station for collection, will be charged a fixed monthly charge based on the costs of the service. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget.

All business refuse consumers, whose premises are not yet supplied with a refuse removal service and are therefore required to take their refuse to a central point or transit station for collection, will be charged a fixed monthly charge based on the costs of the service.

All bulk refuse consumers, whose premises are not yet supplied with a refuse removal service and are therefore required to take their refuse to a central point or transit station for collection, will be charged a fixed monthly charge based on the costs of the service.

A fixed monthly charge shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

## **9. SEWERAGE**

The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget.

Tariff adjustments will be effective from 1 July each year.

Categories of usage and charges shall be:

- A basic (availability) charge per month shall be charged for undeveloped erven, irrespective of their permitted or intended use, if services are available to the erf.
- A fixed monthly charge based on the costs of the service shall be charged for the emptying of VIP or similar type septic tanks for domestic users. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget.
- A fixed monthly charge based on the costs of the service shall be charged for domestic users connected to the municipality's waterborne sewerage network. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget.
- A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users who are connected to the municipality's waterborne sewerage network.
- A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff who are connected to the municipality's waterborne sewerage network.
- An effluent fee shall further be payable by factories and other industrial users where the wastewater emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the wastewater concerned and the costs of the purification.

## **10. MINOR TARIFFS**

All minor tariffs shall be standardized within the municipality
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All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

The following services shall be considered as subsidised services, and the tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses budgeted for the service concerned:

- burials and cemeteries
- rentals for the use of municipal sports facilities

The following services shall be considered as community services, and no tariffs shall be levied for their use:

- disposal of garden refuse at the municipal tip site
- municipal reference library
- municipal lending library (except for fines set out below)
- parks and open spaces.

The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

- maintenance of graves and garden of remembrance (cremations)
- housing rentals
- rentals for the use of municipal halls and other premises (subject to the proviso set out below)
- building plan fees
- sales of refuse bins
- cleaning of stands
- water, sewerage: new connexion fees
- photo copies and fees
- clearance certificates.
- renting out of library hall
- garden refuse removal
- advertising sign fees

The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget:

- fines for lost or overdue library books
- pound fees
- water: disconnection and reconnection fees
- penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

Market-related rentals shall be levied for the lease of municipal properties.

In the case of rentals for the use of municipal halls and premises, if the municipal manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the municipal manager may waive 50% of the applicable rental.

The municipal manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of municipal halls, premises and sports fields, and in so determining shall be guided by the likelihood of the municipality's sustaining damages as a result of the use of the facilities concerned.

## **11. ADJUSTMENT OF TARIFFS**

The Council undertakes to keep tariffs at affordable levels. The Council is also aware that due to historical reasons many residents receive services at a level higher than what they can afford. In order to remain affordable, the Council will ensure that:

- Services are delivered at an appropriate level within the affordable limits of different consumer profiles;
- Efficiency improvements are actively pursued across the municipality's operations and infrastructure maintenance;
- A performance management system is introduced to ensure that plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used;
- Any non-core functions that the municipality currently performs are phased out as soon as possible without depriving the community of any services that really contributes to the quality of life of people in our area;
- Any service that is provided for which there is little demand, be priced at the actual cost of providing it; and

- Any service which requires the municipality to maintain significant infrastructure and other facilities, are phased out, except where the Council is by law required to provide such a service.

The adjustment of tariffs will be aligned with the current economic imperatives and as such will be transparent to ensure that the resulting tariffs are clear and easily understood.

It is a fact that some members of the community are better able to afford to pay for the services that they use and have the benefit of, than others are. The budget of the Municipality is an important device in ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidize those who pay less tax. Also, the Council uses the trading surplus it realizes on the trading account to bring relief with regard to property tax rates. Likewise, the Council will ensure that the cross-subsidization occurs between and within services to further contribute to its redistribution objectives.

The size of the property rates and service charges accounts presented to the local businesses, is a significant business overhead for any business enterprise in the Municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival. The Council will take care that the municipal accounts presented to local businesses are fair. To ensure fairness toward local business, the Council will, when it determines tariffs, take into account the desire:

- To promote local economic competitiveness and
- To promote local economic development and growth.

The Constitution, Local Government Municipal Systems Act, 2000 and Water Services Act of 1997 require that the Municipality must ensure that it provides basic services in a sustainable manner. In order to ensure sustainability, the tariff for a service must therefore be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision. However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that charges to be levied must be collected. Council must thus adopt and apply a Credit Control and Debt Collection policy to ensure that property rates and service charges are fully recovered.

## **12. ADJUSTMENT OF ACCOUNTS**

Where incorrect tariff approved for different category of consumers is applied and wrongs debits were raised, the accounts under query will be rectified accordingly for the current financial year and two preceding years.

### **13. CHARGING OF INTEREST ON ARREAR ACCOUNTS**

Interest to be calculated at PRIME Rate plus 1%, becomes owing and payable on any balance which is outstanding after the expiry date specified in any account. A portion of a month will be deemed to be a full month.

### **14. SERVICES DEPOSITS**

A consumer deposit will be required for every new service agreement. The deposit will be calculated as follow:

- to include the basic fees of sewerage and refuse to be charged on a monthly basis to this account for two (2) months
- in the case of conventional (Read) meters the expected consumption for water and/or electricity for two months
  - (i) Household (20 kl) electricity (500kwh)
  - (ii) Businesses as per comparable business or upon advice from Technical Services
- The deposit to be accepted as a general municipal services deposit and will not be service specific
- Cash and bank guarantees acceptable as service deposits.